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Book review [News items]

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say at 110. The computations under the first step of the formula are the same as above: $116.67. The second step differs from the foregoing:

Cost of two shares at 110	$220.00	
Cost of one new share	100.00	
Total	$320.00	
Divided by 3		$106.67

The amount figured under the first step exceeds this amount by $10. This excess is the profit on the sale of two rights. Since the client owned 200 rights, his total profit would have been $1,000. It should be credited to other income. The balance of the selling price—$666.67—represents a return of capital, and should be credited to the investment account.

From a theoretical point of view it appears that the decision of the court is based on the premise that there has been a dilution of book value of the investment through the introduction of additional shares which serve to decrease the prorata amount of surplus per share. Thus, net assets of $1,000,000 represented by 5,000 shares having a par value of $50 per share would give a surplus value of $150 to each of the shares. The introduction of 2,500 additional shares sold at $50 per share would dilute the surplus value per share to $100.

But it is conceivable that new shares might be offered at $200 per share, in which event there would be no dilution. And, apparently, it would be just as wrong to credit proceeds arising from the sale of rights against the investment value in a case of this kind, where there has been no dilution, as not to credit such proceeds to the investment value, where there has been dilution.

In practice the new offering of stock would probably not be made at so high a figure as $200 in the above case, since then stock rights would possess no value whatso-ever. It would be immaterial to purchasers whether they bought old or new stock. On the other hand, a figure as low as $50 would not be named, since sale of additional stock at that price would cause too great a dilution in existing values, and would give the stock rights an inordinately high value. In most cases, consequently, a middle course would be adopted. The sale of stock rights then would consist of both a return of capital and a profit. Decision as to the proper method of treating proceeds from the sale of rights would therefore appear to depend on the degree of dilution.

As a practical accounting matter, decision would seem to be affected considerably by the amount involved in the sale of rights. Where the number of shares held is small and the amount received from the sale of rights is relatively insignificant, it would appear to be immaterial whether the proceeds are treated as income or as a reduction of investment. Where the amount is large there can be no question, if dilution has taken place, about the desirability of applying the amount in reduction of the investment value. Certainly, from the point of view of conservative financial policy, this treatment is to be preferred. There can be no objection, however, to following the wishes of clients if such wishes express a preference for treating the item as income, as long as the item is clearly set out in the income statement and the investments ear-marked to show that the asset value has not been reduced through the application of the proceeds.

Book Review

Kilduff, Frederick William. *Auditing and Accounting Handbook.* (New York, McGraw-Hill Book Company, Inc., 1924. 813 pp.).

The purpose of a handbook is to collect material relating to some subject in order that the material may be readily accessible when the subject in question is under consideration. The preparation of a handbook does not contemplate necessarily, any new contribution to the literature on the subject. A handbook is essentially a collection. Consequently, in judging the value of a handbook one must have before him the question of how good and appropriate is the selection of material.

Answering these questions one must truthfully say that Kilduff's Handbook is a collection of excellent material appropriate to the subject. It gives evidence of thought as to the uses to be made of the material rather than a mere mechanical assembly of data which relates to the subject. The author appears to have kept in mind what, in the way of material, constitutes the equipment of the modern accountant. Some of this material, while not new to use, has in the past been somewhat difficult to find, and he has rendered a distinct service to the practicing accountant in making such information readily accessible.

The chapters on "Auditing," "Property Classifications and Records," "Depreciation," "Financial Statements and Forms," and "Accounts and Accounting Forms" offer nothing particularly new even in handbook form. But the chapter on "Outline for Plant Survey" is a distinctly meritorious feature of the book. The chapter on "Inventory" is without serious competition in any of the existing literature. This, perhaps, might have been expected because of the author's painstaking study of the subject and exposition in his book, "Standard Inventory Manual."

It may also be said that the chapter on "Mathematics" presents nothing new or startling, but it has the very practical value of getting together in small compass formulas and their application to financial problems which uses are indicated frequently these days in the practice of accountancy. Few mathematicians even carry these formulas in their heads and it would be unreasonable to expect accountants to do so. When the formulas are needed, however, they are badly needed, and may only be had as a rule by reference to books which specialize in this subject. Hence their inclusion in a handbook is very welcome.

The wealth of tables which Kilduff's book contains adds greatly to its practical value. Among these tables are those dealing with depreciation, showing the multipliers by years and months for rates running from 2% to 30% per annum; the sinking fund tables covering from one to fifty payments at rates running from 3% to 6% by quarters; the fractional parts of payroll weeks, insurance short-rate tables, term policies, and the expired insurance tables covering both one-year and three-year policies.

All in all, this book should receive a hearty welcome at the hands of practicing accountants, who are learning to depend, with increasing frequency, on collateral tools in their work of serving business.

Mr. F. L. Hammond has received the C. P. A. certificate of the State of Alabama, having successfully passed the May, 1924, examinations.

Mr. W. E. Nissen has been appointed manager of the Salt Lake City office, effective July 1, 1924.

Messrs. W. M. Trant and M. C. Calhoun, of the Denver office, are to be congratulated upon their attainment of the C. P. A. certificate of Colorado.

Mr. C. C. Croggon has acquired, in addition to the other certificates which he holds, the C. P. A. certificate of the State of Alabama.

Mr. A. W. Clapp, of our Atlanta office, is to be congratulated upon his success in passing the law examinations of Georgia. Mr. Clapp was admitted to the bar on July 14.

PRESS OF WILLIAM GREEN, NEW YORK